

**Financial Statements**  
**Porter Township**  
**Midland County, Michigan**  
**March 31, 2006**



## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Porter Township	County Midland
Fiscal Year End March 31, 2006	Opinion Date August 8, 2006	Date Audit Report Submitted to State September 26, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

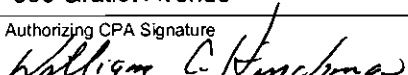
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Roslund, Prestage & Company, P.C.		Telephone Number (989) 463-6123	
Street Address 308 Gratiot Avenue		City Alma	State MI
Zip 48801			
Authorizing CPA Signature 		Printed Name William Hirschman	License Number 1101016179

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March 31, 2006

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### **INDEPENDENT AUDITOR'S REPORT**

Porter Township  
Midland County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Porter Township, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township, as of March 31, 2006, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 8, 2006, on our consideration of the Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-IV, and budgetary comparison information on page 18, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

August 8, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Porter Township  
Midland County  
Management's Discussion and Analysis**

We, the Township Board of Porter Township in Midland County, offer citizens of the Township our financial statements with this narrative overview and analysis of the financial activities of Porter Township for the fiscal year ended March 31, 2006.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to Porter Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1) government-wide financial statements 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances.

The statement of net assets on page 1 presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets.

The statement of activities on page 2 presents information showing how the Township's net assets changed during the most recent fiscal year.

Both the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues. The governmental activities of the Township include general government, public safety, road projects, and recreation.

The Township adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

## **Fund Financial Statements**

Porter Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

## **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 8-17 of this report.

## **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's Budget to Actual comparison. Required supplementary information can be found on page 18 of this report.

## **Financial Highlights**

The unrestricted net assets of Porter Township exceeded its liabilities at the close of the most recent fiscal year by \$306,596, which may be used to meet the Township's ongoing obligations to the citizens and creditors.

As of the close of the current fiscal year, Porter Township's governmental funds reported ending fund balance of \$306,596, an increase of \$43,086 from the 2004 fund balance.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$306,596, or 1.53 percent of the total general fund expenditures.

The Township's total expenditures decreased by \$5,008 during the current fiscal year.



## **The Township's Funds**

The analysis of the Township's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities.

The General Fund pays for most of the Township's governmental services.

## **General Fund Budgetary Highlights**

Over the course of the year, the Township Board may amend the budget to take into account events during the year. For the fiscal year ended March 31, 2006 there were no changes made to the budget. Budget-to-actual statements are shown on page 18.

## **Cash and Cash Equivalents**

At the end of March 2006, the Township has \$334,158 invested in a combination of CDs and Cash Deposits. \$233,224 was uninsured and uncollateralized. Deposits which exceed FDIC coverage limits are held at local banks. The Township Board believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank accounts.

## **Economic Factors and Next Year's Budget and Rates**

The unemployment rate still remains high in the State of Michigan but the Township's budget for next year includes a conservative increase in State Revenue Sharing payments. Also considered was the increase in interest rates on the Township's money-market and CDs for the fiscal year 2006-2007.

A road millage was approved by the Township voters in the Primary Election on August 8, 2006 and will appear on the December 2006 Winter tax bills. The expected revenue generated by this approved millage will be about \$32,000 which will be placed in a restricted road fund to cover additional anticipated road work in the Township in next year's fiscal year.

### **Requests for Information**

The financial report is designed to provide a general overview of Porter Township's finances for all those with an interest in the Township's finances. Questions concerning any of the additional financial information should be addressed to the supervisor of the Township in writing at: 4103 S. 9 Mile Road, Breckenridge, MI 48615 or by telephone at (989)842-3355.

# GOVERNMENT-WIDE FINANCIAL STATEMENTS

Porter Township  
Statement of Net Assets  
March 31, 2006

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	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$300,967
Property taxes receivable	5,031
Accounts receivable	12,448
Due from other funds	<u>1,481</u>
Total current assets	<u>319,927</u>
Noncurrent Assets	
Cash - restricted	33,191
Capital assets - depreciable, net	<u>4,556</u>
Total noncurrent assets	<u>37,747</u>
Total assets	<u>357,674</u>
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable	8,186
Deferred revenue	<u>38,336</u>
Total liabilities	<u>46,522</u>
Net Assets	
Invested in capital assets, net of related debt	4,556
Unrestricted	<u>306,596</u>
Total net assets	<u><u>\$311,152</u></u>

See Accompanying Notes To Financial Statements.

**Porter Township  
Statement of Activities  
for the Year Ended March 31, 2006**

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	<u>Expenses</u>	<u>Program revenues Charges for services</u>	<u>Net (expense) revenue and changes in net assets</u>
Functions/Programs			
Primary government			
General government	81,271	1,775	(\$79,496)
Public safety	21,158	\$5,070	(16,088)
Public works	92,696	63,274	(29,422)
Community and economic development	<u>9,022</u>	<u>6,987</u>	<u>(2,035)</u>
Total primary government	<u>\$204,147</u>	<u>\$77,106</u>	(127,041)
General revenues			
Property taxes			46,844
State shared revenues			86,700
Unrestricted investment earnings			13,899
Miscellaneous revenues			<u>3,881</u>
Total general revenues			<u>151,324</u>
Change in net assets			24,283
Net assets - beginning of year			<u>286,869</u>
Net assets - end of year			<u>\$311,152</u>

See Accompanying Notes To Financial Statements.

## **FUND FINANCIAL STATEMENTS**

Porter Township  
Balance Sheet  
Governmental Funds  
March 31, 2006

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	<u>General Fund</u>
ASSETS	
Cash	\$300,967
Cash - restricted	33,191
Property taxes receivable	5,031
Accounts receivable	12,448
Due from other funds	<u>1,481</u>
Total assets	<u><u>\$353,118</u></u>
LIABILITIES AND FUND EQUITY	
Liabilities	
Accounts payable	\$8,186
Deferred revenue	<u>38,336</u>
Total liabilities	<u>46,522</u>
Fund balance - unreserved	<u>306,596</u>
Total liabilities and fund equity	<u><u>\$353,118</u></u>

See Accompanying Notes To Financial Statements.

**Porter Township**  
**Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds**  
**to Net Assets of Governmental Activities on the Statement of Net Assets**  
**for the Year Ended March 31, 2006**

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Total fund balance - governmental funds	\$306,596
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Add: cost of capital assets	392,650
Deduct: accumulated depreciation	<u>(388,094)</u>

Net assets of governmental activities	<u><u>\$311,152</u></u>
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See Accompanying Notes To Financial Statements.



Porter Township  
**Statement Of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended March 31, 2006**

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	<u>General Fund</u>
Revenues	
Taxes and penalties	\$46,844
Solid waste assessments	63,274
Licenses and permits	6,987
State grants	86,700
Interest and rentals	14,024
Fire/rescue fees	5,070
Other revenues	<u>5,531</u>
Total revenues	<u>228,430</u>
Expenditures	
Legislative	3,800
General government	61,215
Public safety	21,158
Public works	
Drains at large	744
Highways, streets, and bridges	28,678
Solid waste	63,274
Community and economic development	9,022
Other	
Insurance and fringes	10,696
Capital outlay	<u>1,650</u>
Total expenditures	<u>200,237</u>
Excess of revenues over expenditures	28,193
Fund balance - beginning of year	<u>278,403</u>
Fund balance - end of year	<u><u>\$306,596</u></u>

See Accompanying Notes To Financial Statements.

**Porter Township**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**for the Year Ended March 31, 2006**

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Net change in fund balances - total governmental funds	\$28,193
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Amounts reported for governmental activities in the statement  
of activities are different because:

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Governmental funds report capital outlays as expenditures.  
However, in the statement of activities, the cost of those assets is  
allocated over their estimated useful lives as depreciation expense.

Add: capital outlay

1,650

Deduct: depreciation expense

(5,560)

Change in net assets of governmental activities

\$24,283

See Accompanying Notes To Financial Statements.

Porter Township  
Statement of Net Assets  
Fiduciary Funds  
Year Ended March 31, 2006

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	<u>Tax Collection Fund</u>
ASSETS	
Cash	<u>\$1,481</u>
Total assets	<u><u>\$1,481</u></u>
LIABILITIES	
Due to general fund	\$1,481
Due to county	-
Due to schools	<u>-</u>
Total liabilities	<u><u>\$1,481</u></u>

See Accompanying Notes To Financial Statements.

## **NOTES TO THE FINANCIAL STATEMENTS**

Porter Township  
Notes to Financial Statements  
March 31, 2006

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of Porter Township (the Township) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township.

### **New Accounting Standards Adopted**

In fiscal year 2006, the Township adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- # 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – (an Amendment to No. 34)*
- # 38 – *Certain Financial Statement Note Disclosures.*

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments.

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the Township's governmental activities, business-type activities, and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the Township's statement of net assets includes both noncurrent assets and noncurrent liabilities of the Township, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Debt Account Group.

In addition to the government-wide financial statements, the Township has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Porter Township  
Notes to Financial Statements  
March 31, 2006

Statement No. 34 also requires certain required supplementary information in the form of *Management's Discussion and Analysis* which includes an analytical overview of the Township's financial statements. In addition, a budgetary comparison statement is presented that compares the adopted and modified budget for all major funds with actual results.

Statement No. 37 amends GASB Statements No. 21 and 34. The amendments to Statement 21 are necessary because of the changes to the fiduciary fund structure required by Statement 34.

GASB has issued Statement No. 38, *Certain Financial Statement Note Disclosures* which modifies, establishes and rescinds certain financial statement disclosure requirements.

### **Reporting Entity**

The Township is governed by an elected five-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the Township and its component units. In evaluating how to define the Township for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in a reporting entity is made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *"The Financial Reporting Entity."* In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

### **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to consumers who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Porter Township  
Notes to Financial Statements  
March 31, 2006

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, claims and judgments, are recorded only when payment is due.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The Township reports the following major funds:

Governmental Funds - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Porter Township  
Notes to Financial Statements  
March 31, 2006

**Budgets and Budgetary Accounting**

Budgets are adopted by the Township for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

**Property Taxes**

Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property located in the Township as of the preceding December 31<sup>st</sup>. These taxes are due on February 14<sup>th</sup> with the final collection date of February 28<sup>th</sup> before they are added to the county delinquent tax rolls.

For Township operations, the 2005 Taxable Valuation of the Township totaled \$28,118,143, on which 1.27520 mills were levied.

The total 2005 levy for the Township was \$35,919.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Inventories**

Inventories, which are immaterial in amount, are not recognized as an asset in these financial statements. Inventories are recorded as expenditures at the time of purchase in the governmental and proprietary fund types.

**Deposits**

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit.



Porter Township  
Notes to Financial Statements  
March 31, 2006

### Receivables

Receivables have been recognized for all significant amounts due the Township in accordance with the accounting principles used for the particular fund. Valuation reserves have not been provided since their collection is not considered doubtful and any uncollected amounts would be immaterial.

### Capital Assets

Capital assets, which include property, plant and equipment, of the governmental activities are reported in the governmental column in the government-wide financial statements. Capital assets of the proprietary funds are reported in the statement of net assets of the proprietary funds. Capital assets are defined by the Township as individual assets with an initial cost equal to or more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Township does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Township are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings & Improvements	25
Furniture & Fixtures	5
Equipment	5
Computers	3

Porter Township  
Notes to Financial Statements  
March 31, 2006

## **NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **Budgetary Information**

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end. The Township does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

### **Excess of Expenditures over Appropriations**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended March 31, 2006, the Township incurred expenditures in excess of the amounts appropriated as shown on page 18 of this report.

## **NOTE 3 - DETAILED NOTES**

### **Cash and Cash Equivalents**

Michigan Compiled Laws, Section 129.91, authorized the Township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township's deposits are in accordance with statutory authority.

Porter Township  
Notes to Financial Statements  
March 31, 2006

At March 31, 2006, the carrying amount of the Township's cash and cash equivalents was as follows:

Cash Deposits	\$154,904
Cash Deposits – Restricted	33,191
Certificate of Deposit	146,063
Total	\$334,158

At year end, the carrying amount of the Township's cash deposits and certificate of deposits was \$334,158. This amount includes \$33,191 in cash restricted for solid waste removal activity only. At year end, the bank balance was \$334,314, of which \$101,090 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks.

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

#### **Due From/To Other Funds**

The amount of "Due From/To Other Funds" represents property taxes collected and held in the Agency fund that are due to the General Fund.

Porter Township  
Notes to Financial Statements  
March 31, 2006

### Capital Assets

A summary of changes in general fund capital assets follows:

	April 1, 2005	Additions	Disposals	March 31, 2006
Buildings & Improvements	\$367,000	-	-	\$367,000
Furniture & Fixtures	15,000	-	-	15,000
Equipment	5,000	\$1,650	-	6,650
Computers	4,000	-	-	4,000
Sub-totals	391,000	1,650	-	392,650
Accumulated Depreciation	(382,534)	(5,560)	-	(388,094)
Totals	\$8,466	(\$3,910)	-	\$4,556

Depreciation expense was charged to the general government function.

### Risk Management

The Township is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Township has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

### Deferred Revenue

Deferred revenue represents taxes collected for solid waste removal in excess of the amount expended.

Porter Township  
Notes to Financial Statements  
March 31, 2006

**Employees Retirement System – Defined Contribution Pension Plan**

*Plan Description*

Porter Township participates in the John Hancock Defined Contribution Pension Plan for Michigan Township Employees. The name of the plan is the Porter Township Group Pension Plan.

All members of the Township Board and all Township Employees are eligible to participate in the plan. As of March 31, 2006, the pension plan's current membership was 10 employees.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined. The amounts participants receive depend solely on the amount contributed to the participant's account and the returns earned on those contributions.

*Funding Policy*

The Township is required to make annual contributions based on 7.5% of compensation as defined in the plan document. Employees can make voluntary contributions up to a maximum of 75% of their compensation. Contributions made either by employees or the Township shall be 100% vested upon a participant's death, disability, or normal retirement, or upon the termination of the plan.

During the year, the Township's actual contributions to the plan amounted to \$2,931.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

Porter Township  
Notes to Financial Statements  
March 31, 2006

**Building Inspection Department Fund**

Public Act 245 of 1999 was signed on December 28, 1999 and took immediate effect. This act amends the State Construction Code Act (Public Act 230 of 1972) and requires, among other things, the establishment of a special revenue fund to account for the revenues and expenditures associated with issuing building permits, examining plans and specifications, inspecting construction before issuing permits, and issuing certificates of use and occupancy.

The Township has not established this fund because the fee structure is not intended to recover the full cost and the Township has the ability to track the full cost and revenues of this activity without creating a separate fund.

The revenues generated under this act for the year ended March 31, 2006 were \$6,987. The expenditures incurred for this activity during the year ended March 31, 2006 were \$9,022.

**REQUIRED SUPPLEMENTAL INFORMATION**

**BUDGETARY COMPARISON SCHEDULE**

**Porter Township**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds - Budget to Actual**  
**Year Ended March 31, 2006**

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes and penalties	\$45,900	\$45,900	\$46,844	\$944
Solid waste assessments	61,440	61,440	63,274	1,834
Licenses and permits	8,100	8,100	6,987	(1,113)
State grants	86,285	86,285	86,700	415
Interest and rentals	6,300	6,300	14,024	7,724
Fire/rescue fees	4,400	4,400	5,070	670
Other revenues	4,200	4,200	5,531	1,331
Total revenues	<u>216,625</u>	<u>216,625</u>	<u>228,430</u>	<u>11,805</u>
Expenditures				
Legislative	3,680	3,680	3,800	(120)
General government	68,521	68,521	61,215	7,306
Public safety	30,000	30,000	21,158	8,842
Public works				
Drains at large	3,400	3,400	744	2,656
Highways, streets, and bridges	26,000	26,000	28,678	(2,678)
Solid waste	62,500	62,500	63,274	(774)
Community and economic development	11,399	11,399	9,022	2,377
Other				
Insurance and fringes	11,125	11,125	10,696	429
Capital outlay	-	-	1,650	(1,650)
Total expenditures	<u>216,625</u>	<u>216,625</u>	<u>200,237</u>	<u>16,388</u>
Excess of revenues over expenditures	-	-	28,193	28,193
Fund balance - beginning of year	<u>278,403</u>	<u>278,403</u>	<u>278,403</u>	<u>-</u>
Fund balance - end of year	<u>\$278,403</u>	<u>\$278,403</u>	<u>\$306,596</u>	<u>\$28,193</u>

See Accompanying Notes To Financial Statements.





**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Township Board  
Porter Township  
Midland County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Porter Township (the Township) as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements and have issued our report thereon dated August 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

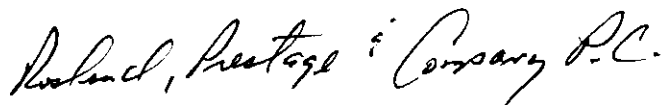
In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Township, in a separate letter dated August 8, 2006.

This report is intended solely for the information and use of management and the Township Board and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.  
Certified Public Accountants

August 8, 2006



## Management Letter

Members of the Board  
Porter Township

In planning and performing our audit of the financial statements of Porter Township for the fiscal year ended March 31, 2006, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our audit report dated August 8, 2006, on the financial statements of Porter Township.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience.

Sincerely,

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

August 8, 2006

## **Organizational Structure**

The size of the Township's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Township Board remains involved in the financial affairs of the Township to provide oversight and independent review functions.

## **Adopt a Capitalization Policy and Expense Small Items**

We noted during our audit that there is no established guideline concerning which property and equipment acquisitions are to be capitalized. We recommend that the Township establish a capitalization policy whereby all purchases over a minimum threshold (i.e. \$1,000) and having a useful life of one year or more are capitalized. This policy should be in writing and communicated to those who code property invoices to ensure the policy is consistently followed. Also, we recommend that capitalizable expenditures be coded to an account separate from those expenditures which will not be capitalized. This will result in a more uniform treatment of property and equipment and allow the Township to continue to assess current expenditures along with identifying significant assets that will later be capitalized.

## **Qualifying Statement**

By statute, the Township is required to submit a Qualifying Statement to the State of Michigan every year. This form is due to the State within 180 days from the end of the fiscal year. Qualifying statements are required to be submitted electronically and can be found at [www.michigan.gov/treasury](http://www.michigan.gov/treasury).